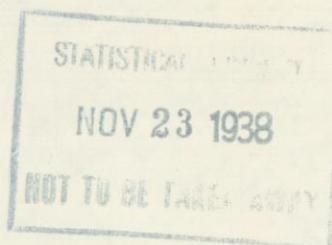


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Financial Report
OF
GEO. A. HORMEL & COMPANY
AUSTIN, MINNESOTA
for the
Fiscal Year Ended October 29, 1938

OFFICERS

Geo. A. Hormel	- - - - -	Chairman of the Board
Jay C. Hormel	- - - - -	President
Ben F. Hormel	- - - - -	Senior Vice President
H. H. Corey	- - -	Vice President & General Manager
R. H. Daigneau	- - - - -	Vice President
John G. Hormel	- - - - -	Secretary
C. D. Bigelow	- - - - -	Assistant Secretary
M. F. Dugan	- - - - -	Treasurer

DIRECTORS

S. D. Catherwood

H. H. Corey

A. A. Dacey

R. H. Daigneau

Park Dougherty

M. F. Dugan

Ben F. Hormel

Geo. A. Hormel

Jay C. Hormel

O. W. O'Berg

L. E. Wakefield

Austin, Minn.,

Nov. 15, 1938

To the Stockholders of

Geo. A. Hormel & Company

The earnings statement and balance sheet of your company for the year ended October 29, 1938, is submitted herewith.

The total sales of product for the year amounted to 410,210,571 pounds, which was an increase of about 6 per cent over a year ago. During 1938, our volume of hog slaughter increased somewhat from 1937. It is expected that in 1939 the pork business of the company will be about normal.

During 1938, our beef, veal and lamb business was slightly below normal, but the canning business increased. Although the net increase in the total volume amounted to 23,996,437 pounds, lower price levels held the net dollar sales to \$56,921,648.34, which was a decrease of 6 per cent from last year.

The net worth of the company now stands at \$9,928,043.52, an increase of \$232,355.97 since a year ago. Inasmuch as legal questions with respect to processing taxes still exist, we have continued as a current liability a reserve in the full amount of the processing tax money about which there is still any dispute. This leaves net current assets at \$4,588,466.48, which is an increase of \$169,253.44 over a year ago.

The company is continuing to price its inventory at the lower of cost or market, as has been its custom in the past. All known bad debts have been charged off in full. Loss on capital assets scrapped or disposed of has been charged off in full. \$337,799.33 has been charged off for depreciation on plant and equipment. The balance sheet carries substantial reserves for other contingencies. All taxes have been provided for, including Social Security assessments.

Although good accounting practice does not provide a place to show it in the balance sheet, it is true that nearly nine-tenths of the \$227,756.97 paid as unemployment compensation tax stands on the books of the State of Minnesota as a reserve account in our name.

When this reserve account amounts to \$377,705.99—that is, using our present employment as a base for calculating)—our annual rate of tax will be reduced by \$45,324.72. When the reserve account finally amounts to \$629,509.83, our rate of tax will be reduced the maximum provided by the merit clauses in the Minnesota statute, and the saving then will amount to \$90,649.25 per year.

These savings have been earned by avoiding those fluctuations in employment which would entitle substantial numbers of employees to claim unemployment compensation benefits.

However, there is another provision in the Minnesota statute for which this company expects to qualify when its reserve account is built up to the legal requirement; namely, the guaranteed employment provision. Under that clause in the statute, our annual saving in unemployment compensation taxes will amount to \$110,793.75 per year.

Again, this year, in giving an account of its stewardship, the management of your company wishes to acknowledge not only its obligation to serve the public well, but also, specifically, its obligation to live stock producers and to company employees as well as to stockholders.

The company has maintained a forward position in the development of new forms in which live stock products can be merchandised, thus providing a wider and more profitable market for live stock than otherwise would be the case. Our new product SPAM has been a distinct contribution in this respect during the past year, as well as contributing much to employment and substantially to profits.

A similar contribution to live stock producers, to employees and to stockholders is found in the new method of curing hams which, while not originated by nor exclusive with this company, has been promoted vigorously by us, with the result of producing a noticeable increase in the demand for hams and picnics, with a tendency toward having the best improvement in demand show in the heavier weights, which formerly were much the most difficult to sell.

As against these activities, of which this company either has been the originator or has been quick to follow a new development to aid in adding marketability to live stock, there have been several instances through which live stock products have been replaced by synthetic substitutes. Wishing to do something to offset these unfavorable trends, and being impressed with the tremendous strides which have been made by science in other industries, this company has undertaken to establish a program of pure research, with the hope of discovering elements or uses heretofore unknown in the food field.

Although the packing industry has been traditionally efficient in "saving everything but the squeal," and in adapting known processes and devices, it never has undertaken to learn whether our basic live stock products can be turned to new uses and new values. The packing industry has not done the equivalent of producing a synthetic fiber or plastic, nor of discovering the principles of radio.

Believing the same opportunity through research must exist in the field covered by our business, the company has undertaken to establish, in co-operation with the University of Minnesota, a foundation for the promotion of pure research in the field of food technology, on a basis which will give this company certain immediate benefits from any discoveries which are made but which, at the same time, will make those discoveries also available to the entire meat and live stock industry.

The successful record of this type of research in other industries leads us to believe that results come slowly but surely, so, in this research program, we feel we will be serving the live stock producer by finding new uses and markets for the products of his live stock, we will be serving the employee by developing new sources of employment, and, of course, we hope to uncover new sources of profit for the company.

With the development of the straight-time plan, the average earnings of our employees continue to increase. Two years ago, we were able to report that the average weekly earnings of our employees were 13c per week higher than the average for all packers. Last year, we reported that our employees averaged \$1.05 per week more than was generally paid for comparable work. This year, the average weekly wage for our packing house employees has been \$1.37 higher than the average for all packers, and that is \$5.46 a week higher than the average for all industry. Our average wage, \$29.40 per week, included provision for regular vacation or sick leave with full pay, and the employee has had steady employment the year 'round. In this last respect, a comparison of wages paid, as quoted above, is not a comparison of wages received, because all workers in industry do not receive pay checks every week.

For example, in the State of Minnesota, out of approximately 500,000 industrial employees, something over 130,000 have had at least one period of unemployment during the last ten months, and among them, something over 30,000 have had more than one period of unemployment since January 1, 1938. Applying the same proportion to this company's employment would mean that 1,000 of our 3,000 employees would have been without work and without pay checks for some period during 1938.

The company owes no money to banks, has no indebtedness beyond current and customary bills, and has current assets to cover all current liabilities in the ratio of 3.1 to 1. Company properties have been maintained in a high state of efficiency and repair. Several new facilities have been added to the plant, including one important manufacturing building which is modern and efficient in every respect. A considerable amount of new machinery and equipment has been added.

During the year the Company closed its lard refining plant at Nuevo Laredo, Tamps. Mexico. This move was prompted by uncertain business prospects and uncertainty of Government policies in the Republic of Mexico.

In general, we have taken such steps in the management of the company as we believe will safeguard the ability of the company to provide a continually increasing marketability for the products of live stock, safeguard the opportunity of our employees to find here increasingly secure and remunerative employment, and safeguard the investment and the income of our stockholders.

JAY C. HORMEL
President

CONSOLIDATED

Geo. A. Hormel & Company -

October

ASSETS

CURRENT

Cash		\$ 899,216.53
Trade accounts receivable, less reserve of \$100,000.00		2,205,191.40
Inventories:		
Products priced on the basis of year-end market or accumulated cost (i. e. market at date of production) whichever is low- er		\$3,158,691.88
Livestock and supplies at the lower of cost or market	504,421.79	3,663,113.67
TOTAL CURRENT ASSETS		\$6,767,521.60

INVESTMENTS AND OTHER ASSETS

Properties not used in operations, at cost less reserve for depreciation of \$9,909.54	\$ 84,949.06
Sundry securities, notes, accounts, etc., less reserve of \$55,900.00	46,069.42
Notes, accounts and stock purchase contracts receivable from employees	20,851.46

PROPERTY, PLANT AND EQUIPMENT

Land—at cost	\$ 152,523.57
Buildings, machinery and equipment, etc.— at cost less reserves for depreciation of \$2,267,761.48	5,237,595.26

5,390,118.83

PREPAID

Supplies, unexpired insurance, etc.	141,953.49
<u>\$12,451,463.86</u>	

BALANCE SHEET

Austin, Minnesota, and Subsidiaries

29, 1938

LIABILITIES

CURRENT

Accounts Payable	\$ 646,198.28
Taxes:	
Provision for Federal and State taxes on income, local taxes, and Social Security taxes—estimated	<u>552,803.36</u> \$1,199,001.64
Reserve for undetermined liabilities in connection with invalidation of processing taxes	<u>980,053.48</u>
	<u>\$2,179,055.12</u>
RESERVES—for contingencies	329,549.16
MINORITY INTEREST—in capital stock of sub- sidiary	14,816.06

CAPITAL STOCK AND SURPLUS

Preferred stock—cumulative—par value \$100.00	
Authorized—48,935 shares	
Issued Class A-6% (callable at \$105.00)	
14,554 shares, including 100 in treasury	----- \$1,455,400.00
Common stock—no par value	
Authorized—500,000 shares	
Issued 493,944 shares, including 18,954 in treas- ury	----- 6,116,585.81
Surplus	<u>2,600,765.09</u>
	<u>\$10,172,750.90</u>
Less capital amount of shares in treasury	----- <u>244,707.38</u> <u>9,928,043.52</u>
Contingent Liabilities—\$56,060.08	<u>\$12,451,463.86</u>

SUMMARY OF INCOME AND SURPLUS
**Geo. A. Hormel & Company - Austin, Minnesota
 and Subsidiaries**

Fiscal year ended October 29, 1938

Net Sales		\$56,921,648.34
Deduct:		
Cost of goods sold, selling, administrative and general expenses, exclusive of depre- ciation and taxes		\$54,761,759.60
Provision for depreciation		337,799.33
Interest paid	\$43,330.11	
Other Charges	52,737.47	
	\$96,067.58	
Less Other Income	54,036.10	42,031.48 55,141,590.41
INCOME BEFORE TAXES \$ 1,780,057.93		
Less Taxes:		
Local taxes and Social Security taxes	\$ 492,205.94	
Provision for Federal and State income taxes, less excess provision of \$13,972.19		
for prior periods—estimated	228,177.81	
Surtax on undistributed profits—estimated	28,100.00	
	TOTAL TAXES	748,483.75
	NET INCOME	\$ 1,031,574.18
Dividends on Preferred stock—\$6 per share		86,724.02
	INCOME APPLICABLE TO COMMON STOCK	\$ 944,850.16
Dividends on Common stock—\$1.50 per share		712,494.19
	BALANCE OF NET INCOME TO SURPLUS	\$ 232,355.97
Surplus—October 30, 1937		2,368,409.12
	SURPLUS—October 29, 1938	\$ 2,600,765.09

ERNST & ERNST
ACCOUNTANTS AND AUDITORS
SYSTEM SERVICE

Geo. A. Hormel & Company
Austin, Minnesota

We have made an examination of the consolidated balance sheet of Geo. A. Hormel & Company and its subsidiaries as at October 29, 1938, and of the consolidated statements of profit and loss and surplus for the fiscal year ended at that date. In connection therewith we examined or tested accounting records of the companies and obtained information and explanations from their officers and employees; we have also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

The inventories taken and priced by the company, were thoroughly reviewed by us as to pricing and, in our opinion, the valuation has been determined in accordance with the company's established policy which is substantially as follows: Products on the basis of the lower of year-end market or accumulated cost, which is based on market at the date of production; livestock and supplies at lower of cost or market.

No determination has been made as to the ultimate liability, if any, which may result from invalidation of processing taxes in 1936. The reserve represents the entire amount of unpaid accrued processing tax less adjustment for tax on floor stocks and income taxes paid thereon.

In our opinion, based upon our examination, the accompanying balance sheet and related summary of income and surplus fairly present the consolidated position of the company and its subsidiaries at October 29, 1938 and the consolidated results from operations for the year ended at that date. Further, it is our opinion that the statements have been prepared in accordance with accepted principles of accounting and on a basis consistent with the preceding year.

ERNST & ERNST
Certified Public Accountants

Minneapolis, Minnesota
November 12, 1938

SINCE no advertising equals the spoken word of an enthusiastic user, every stockholder is urged to become acquainted with all the products of the Company, to discover their convenience and the goodness of them, and to recommend them to their friends. The following is a partial list of Hormel products which may be identified by brand in your food store:

HORMEL BRANDED BEEF

Hormel Best
Hormel circle

Hormel Merit
Hormel triangle

Hormel Value
Hormel square

HORMEL BRANDED LAMB

Hormel Best
Hormel circle

Hormel Merit
Hormel triangle

Hormel Value
Hormel square

HORMEL HAM

Dairy Brand Ham

Del-i-Cut Brand Ham

Minnesota Brand Ham

Dairy Brand Cooked Ham

Dairy Brand Ham
Delicatessen Style

Dairy Brand Baked Ham

HORMEL BACON

Dairy Brand Bacon

Minnesota Bacon

Canadian Style Bacon

Sliced in cellophane packages, or by the piece

Dairy Brand Sliced Bacon
In the green and white labeled
cellophane package

Dairy Brand Sliced Bacon
In the green carton. This is the most
carefully selected and choicest of
all bacon. Costs more. Worth it.

Minnesota Sliced Bacon
In the red and yellow labeled
cellophane package

HORMEL SAUSAGE

Minnesota Fresh Country Style Sausage
The sausage that comes by the yard.
The most popular sausage we make.

Dairy Brand Link Sausage

Minnesota Pure Pork Sausage

Minnesota Smoked Country Style Sausage

Dairy Brand Braunschweiger Minnesota Braunschweiger

Dairy Brand Veal Loaf

Dairy Brand Liver Cheese

Minnesota Luncheon Loaves

Dairy Brand Cervelat

Dairy Brand Salami

Dairy Brand Goteborg

LARD IS STILL THE BEST SHORTENING

Dairy Brand Lard
Finest open kettle rendered.

Hormel (Minnesota) Lard
In the famous red and yellow carton.

SPAM

HORMEL'S NEW MIRACLE MEAT

A delicious, pure pork combination seasoned just right. For breakfast just fry the slices and serve with eggs. Takes only 20 minutes to bake. Makes delicious sandwiches and appetizers, hot or cold. Full information clearly printed on the can.

Extra suggestion "SPAMWICH"

Two slices of SPAM on a piece of toasted bread, two slices of tomato, sliced onion, or pickle, cover with Velveeta cheese, toast under broiler until cheese has melted.

FLAVOR-SEALED HAMS

Cooked in the can ready to eat.

Whole Hams

Sweet, mild and tender
no bone, no skin, no surplus fat.

Half Hams - Quarter Hams

Ideal for family use.

Pullman Hams

The right type for sandwich
making.

CHICKEN SPECIALTIES

U. S. Government inspected.

Whole Chicken

A whole chicken surrounded
with delicious jelly.

Half Chicken

A half chicken surrounded with jelly.

Boneless Chicken

Carefully packed slices of Bone-
less chicken for salads, etc.

F. S. SPECIALTIES

Chicken a la King

Choice morsels of chicken with mushrooms,
peppers, rich cream sauce.

Ham a la King

Nice pieces of ham with mushroom,
pepper, rich cream sauce.

Hormel Corned Beef Hash

Mildly cured beef with diced
potatoes.

Hormel Chili Con Carne

Tender pieces of beef with chili
beans, mildly blended.

Hormel Sausage

Small link sausages mildly
seasoned.

HORMEL FLAVOR-SEALED SOUPS

Hormel Vegetable Soup

Rich beef broth combined
with vegetables.

Vegetable Beef Soup

Rich beef stock with vegetables
and tender pieces of beef.

Onion Soup

Tender onions, sliced and sauted
in butter, in rich beef stock
with Parmesan Cheese.

Cream of Mushroom

Choice mushrooms, blended with
rich cream and butter.

Pea Soup

Pureed split peas in rich bacon
flavored stock.

Mongole

Combination of pea soup and
cream of tomato.

Cream of Tomato

Puree of ripe tomatoes blended
with rich cream and butter.

Tomato Bean Bretonne

Choice beans cooked in beef stock,
blended with vegetables, tomatoes,
cream and butter.

Chicken Noodle Soup

Double strength chicken broth
with rice.

JELLIED CONSOMMES

Chicken

Double strength chicken broth.

Beef

Rich beef broth.

Madrilene

Double strength chicken, tomato
and celery flavored.

DINTY MOORE PRODUCTS

Dinty Moore Beef Stew

Beef with five vegetables.
The big meal in the big can.

Dinty Moore Corned Beef & Cabbage

Choice brisket of beef with cabbage, potatoes,
and carrots.

Dinty Moore Spaghetti & Meat Balls

All beef meat balls, with tomato sauce, and
spaghetti, cheese, flavored.

Dinty More Ox-Joints

Delicious combination of ox-joints and vegetables.

Dinty Moore Irish Stew

Tender pieces of lamb with vegetables, cream gravy.

